



# Town of Dover

5 Springdale Avenue  
P.O. Box 250  
Dover, Massachusetts 02030

Date: June 20, 2014

To: Board of Selectmen

From: Gerard Lane, Treasurer-Collector

RE: Borrowing for Land Purchase

I was asked to provide some information on costs and options for financing the possible land purchase. The Town would be able to do short term borrowing, Bond Anticipation Notes (BANS), for up to five years in one year notes. The first two years we could finance interest only; in years three through five we would have to make principal payments in addition to the interest. Interest would be due annually at maturity. The cost of a \$5.5 million BAN currently would be approximately \$50,000 per year. This would include the costs of issuance and interest payment. The impact this borrowing would be \$19.22 per year on a house with the Fiscal 2014 median assessed value of \$833,000.

Attached to this memo are three example debt schedules. They show \$5.5 million, \$4.5 million and \$3.5 million bond issues. The schedules are for twenty year bonds with equal principal payments over the term. This is the structure used in prior land purchases such as the Wylde Woods property. The interest rate is set at three percent for all maturities; this is a simplification for discussion purposes. The actual borrowing would have different coupons for the different maturities. The schedules also show the impact on a median value house.

The question has also been raised if a possible rental of the existing house on the property would lead to any problems with the funding of the purchase. The portion of the borrowing that related to the rented property would be a private purpose as opposed to a public purpose. Private purpose borrowing would have to be issued on a taxable basis rather than the tax exempt status that other Town debt has. So if the Town intends to do this we would split the BAN issue into taxable and exempt issues. A subsequent sale of the residential portion could be used to retire the taxable BANs and then the Town would sell regular tax-exempt bonds to finance the remaining BANs for the long term. Alternatively if the Town decides to retain the residential portion it could be bonded, with the tax treatment being determined by the final use of that portion.

The Town would be able to complete a BAN sale and receive the proceeds within a month of an override election.

Currently interest rates are unusually low; the Town does face significant risk of interest rates rising the longer we use BANs for the project.

If you have any additional questions, please contact me.

Cc: Dave Ramsay, Town Administrator